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Message Text

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22
ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 /100 W
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FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 7709
INFO AMCONSUL KARACHI
AMCONSUL LAHORE

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E.O. 11652: N/A
TAGS: ENRG, PK
SUBJECT: PETROLEUM: ESSO EASTERN ENDS MARKETING ROLE IN PAKISTAN AND AGREES HELP DEVELOP MARI GAS FIELD

BEGIN SUMMARY: ON SEPTEMBER 15, AFTER THREE YEARS OF NEGOTIATIONS, ESSO EASTERN AND GOP SIGNED AGREEMENT UNDER WHICH ESSO SELLS TO THE GOP ITS FILLING-STATION AND OIL DEPOT NETWORK IN PAKISTAN AND ITS 18 PERCENT SHARE IN THE PRINCIPAL OIL REFINERY IN KARACHI. ESSO WILL BE PAID $5.4 MILLION PLUS RS. 4 MILLION. AS PART OF THE AGREEMENT,

ESSO AGREES TO HELP DEVELOP THEMARPPGAS FIELD, AND ESSO AND GOP WILL BUY OUT MOBIL'S SHARES IN THE FIELD. PAK

CONTROLLED PRESS CARRIED ONLY FOUR TERSE SENTENCES ABOUT THE DEAL WITH NO DETAILS GIVEN. ACCORDING TO ESSO CHIEF NEGOTIATOR, FINALIZATION OF AGREEMENT WAS ALMOST UPSET

BY ARREST WARRANT FILED AGAINST HIM BY GOP CHIEF
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INSPECTOR OF MINES WHO WAS TRYING PRESSURE ESSO GIVE

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HIM BRIBE. END SUMMARY.

1. ACCORDING TO ESSO, BOTH SIDES GOT A GOOD DEAL. THE RBP ACQUIRED THE COUNTRY'S SECOND LARGEST SERVICE STATION NETWORK, PLUS A LARGER SHARE IN THE KARACHI REFINERY, FOR A PRICE WELL BELOW THEIR TRUE MARKET VALUE. THE GOP IS ALSO ASSURED OF DEVELOPMENT OF THE IMPORTANT MARI GAS FIELD. ESSO IN TURN WAS ABLE TO DIVEST ITSELF OF A MARGINALLY PROFITABLE OPERATION WITH NO FUTURE FOR SOME HARD CASH AND HAS THE PROSPECT OF EARNING A HIGHER RATE OF RETURN FROM THE GAS FIELD.

2. WHILE TERMS OF THEIR AGREEMENT HAVE NOT BEEN PUBLICLY DIVULGED, EMB HAS LEARNED FROM PAK AND ESSO SOURCES THAT THEY ARE AS FOLLOWS:

A) MARKETING AGREEMENT: ESSO WILL BE PAID $3.9 MILLION AND RS. 3.8 MILLION FOR ITS MARKETING ASSESTS. ESSO WILL USE THESE DOLLARS PRIMARILY FORMTHE DEVELOPMENT OF THE MARI GAS FIELD AND HAS TO KEEP THE FUNDS IN AN IN-COUNTRY ACCOUNT FOR THREE YEARS. ESSO CAN REMIT TO THE USA ANY SURPLUS THAT MAY BE LEFT IN THIS ACCOUNT AFTER MARI FIELD IS DEVELOPED. THE RUPEES WILL BE USED BY ESSO TO DISCHARGE ITS RUPEE LIABILITIES IN PAKISTAN.

B) ESSO'S SHARES IN PAKISTAN REFINERY, LTD (PRL): ESSO'S 18 PERCENT SHARE IN THE REFINERY WILL BE PURCHASED BY GOP FOR $1.5 MILLION. BY THIS PURCHASE, THE FOREIGN SHARE HOLDING IN THE REFINERY DROPS FROM A MAJORITY OF 60 PERCENT TO A MINORITY OF 42 PERCENT.

C) MARI GAS FIELD OWNERSHIP AND DEVELOPMENT: MOBIL AND ESSO PREVIOUSLY HELD 37 PERCENT SHARES EACH AND THE GOP THE REMAINING 25 PERCENT IN THE FIELD. MOBIL HAS AGREED TO SELL ITS INTERESTS TO ESSO AND GOP SO THAT THE NEW HOLDINGS OF ESSO AND GOP WILL BECOME RESPECTIVELY

51 PERCENT AND 49 PERCENT. GOP WILL BUY ITS MOBIL
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SHARES FOR $0.9 MILLPVN. NEW INVESTMENTS IN MARI WILL BE SHARED BY ESSO AND GOP IN THE RATIO OF 51 PERCENT AND 49 PERCENT, AND ESSO WILL CONTRIBUTE AT LEAST 51 PERCENT OF THE FOREIGN EXVJANGE COMPONENT OF NEW INVESTMENT. ESSO ESTIMATES THAT THE INVESTIMENT REQUIRED FOR DEVELOPMENT OF THE FIELD WILL BE US $8.4 MILLION OF WHICH 49 PERCENT WILL HAVE TO BE CONTRIBUTED BY GOP.

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D) MARI GAS PRICING TERMS: THE FIRST INCREASE
IN GAS PRICE, THAT IS FROM 40 PAISA TO 90 PAISA PER
MCF, WOLL BEGIN ON SEPTEMBER 15, 1976. THIS PRICE WILL
BE RAISED TO RS. 1 PER MCF WHEN FIELD IS ABLE TO ACHIEVE
PEAK DELIVERIES OF GAS TO THE PAK-SAUDI FERTILIZER PLANT
(EST. TO OCCUR BY MAY 1978). THE FAUJI-AGRICO PLANT
WILL HAVE TO PAY RS. 1.15 PER MCF FOR MARI GAS PROVIDED
PLANT COMES INTO OPERATION NOT LATER THAN JANUARY, 1980.

E) INFLATION AND DEVELOPMENT PROTECTION: GOP AGREES
TO ADJUSTING THE PRICE OF MARI GAS ON ACCOUNT OF ANY
INCREASE IN OPERATING COSTS DUE TO INFLATION. THE INCREASE
CAN BE NO MORE THAN 25 PAISA PER MCG PER YEAR. ESSO HAS
ALSO BEEN GUARANTEED, IN THE EVENT OF CHANGES IN THE
DOLLAR-RUPEE EXCHANGE RATE, THAT THE EFFECT OF SUCH
CHANGES ON ITS REMITTABLE PROFITS WILL BE NEUTRALIZED.
THIS WILL BE ACCOMPLISHED BY HIKES IN THE PRICE OF GAS
OR BY LUMP-SUM PAYMENTS.

3. DURING CALL ON AMBASSADOR SEPTEMBER 15, ESSO GENERAL
MGR CHARLES ROSE SAID THAT HE WAS PLEASED WITH THE OUTCOME
AND RELIEVED NEGOTIATIONS WERE NOW OVER. HE EXPECTS
LEAVE PAKISTAN SOON AND WILL BE REPLACED BY AN AMERICAN
ESSO EMPLOYEE COMING FROM SABAH, WHO WILL OVERSEE THE
DEVELOPMENT OF THE MARI FIELD. THE FIELD NOW HAS TEN
WORKERS. DEVELOPING IT WILL RAISE THE FORCE TO ABOUT
70 PERSONS.

6. ROSE ALSO PROVIDED EMB WITH AN INSIGHT IN CORRUPTION
PRESSURES TO WHICH FOREIGN COMPANIES ARE SOMETIMES
SUBJECT IN PAKISTAN. HE SAID THAT WHEN HE ARRIVED IN
ISLAMABAD TO SIGN THE AGREEMENT, HE FOUND A WARRANT OF
ARREST OUT AGAINST HIM ON THE GROUNDS THAT HE HAD DISREGARDED
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AN ORDER FROM THE CHIEF INSPECTOR OF MINES TO INCREASE
THE SAFETY FORCE AT THE MARI FIELD TO A RECOMMENDED 305
PERSONS FROM THE PRESENT TOTAL FIELD COMPLEMENT OF TEN
PERSONS. ROSE SAID THAT THE BACKGROUND OF THIS WAS A
DEMAND BY THE INSPECTOR BR A SECRET PAYOFF IN LIEU
OF HIS LEVYING THIS REQUIREMENT ON ESSO. ESSO HAD REFUSED
TO GO ALONG AND ROSE SAID HE REFUSED TO SIGN THE PACKAGE
AGREEMENT UNLESS THE ARREST WARRANT WAS SET ASIDE, WHICH
IT FINALLY WAS. FOR FACE-SAVING PURPOSES, ESSO AGREED
TO ADD TWO MORE "SAFETY" PERSONNEL TO THE FIELD STAFF.
AS AN EPILOGUE TO THE ABOVE, THE CHIEF INSPECTOR HAS
HOW HAD THE GALL TO COME AROUND AGAIN TO ASK FOR A
PAYOFF, THIS TIME ON GROUNDS OF GOP'S "GRACIOUS"
SETTLEMENT OF THE CASE.

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4. THE NEW GOP CORPORATION TAKING OVER ESSO WILL BE CALLED STATE OIL (SO). THE NEW COMPANY WILL HAVE THE RIGHT TO CONTINUE TO USE THE ESSO TRADEMARK FOR SIX MONTHS. WITH STATE OIL'S ESTABLISHMENT, THERE ARE NOW THREE INDEPENDENT GOP OIL MARKETING COMPANIES: STATE OIL, PREMIER OIL AND NATIONAL OIL. ACCORDING TO ROSE, THE GOP PLANS TO CONSOLIDARE THESE INTO ONE MARKETING COMPANY IN A YEAR OR SO.
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